

## INTER OFFICE MEMO

**To:** Administration and Finance Committee

**Date:** December 3, 2019

**From:** Erick Cheung  
Chief Finance Officer

**SUBJECT:** PERS Actuarial Valuation for June 30, 2018; Rate for FY 2021

### SUMMARY OF ISSUES:

The PERS Actuarial Valuation Report (Report) for the period ending June 30, 2018 is used to set the rate for the next fiscal year and provides County Connection's funded status. **The employer rate for FY 2021 will be 8.785% along with an unfunded liability payment of \$537,865.** County Connection's funded status is currently **89.8% funded**, which is down from 91.5%. CalPERS investment return for 2018 was 8.6%, which was over the discount rate of 7.0% as they phase in the lowered discount rate from 7.50% to 7.00%.

### CalPERS Assumptions & Projections

The updated projections shown below will be used for the budget and 10 year forecast. The revised unfunded liability payments are slightly lower as CalPERS rate of return was 8.6% for FY 2018. As shown in the table, the payments for unfunded liability payments over the next 6 fiscal years are down slightly by \$160,135 (assuming assumptions are met in future years). CalPERS has recently announced it achieved 6.8% in FY 2019, which is less than 7.0% and will bring these rates probably closer to the prior forecast.

Below are the CalPERS current projections compared with the prior projections:

	Current			Prior Forecast			Difference		
	Payroll Rate	+	Unfunded Liability Payment	Payroll Rate	+	Unfunded Liability Payment	Payroll Rate	+	Unfunded Liability Payment
FY 2020 Actual	8.313%		\$ 349,903	8.313%		\$ 349,903	n/a		n/a
FY 2021	8.785%		\$ 537,865	8.900%		\$ 548,000	-1.292%		\$ (10,135)
FY 2022	8.800%		\$ 741,000	8.900%		\$ 762,000	-1.124%		\$ (21,000)
FY 2023	8.800%		\$ 897,000	8.900%		\$ 928,000	-1.124%		\$ (31,000)
FY 2024	8.800%		\$ 937,000	8.900%		\$ 980,000	-1.124%		\$ (43,000)
FY 2025	8.800%		\$ 1,017,000	8.900%		\$ 1,072,000	-1.124%		\$ (55,000)
FY 2026	8.800%		\$ 1,045,000	8.900%		n/a	-1.124%		n/a
Unfunded Liab Payment Total			\$ 5,524,768						
Unfunded Liab Payment Total FY 2020-FY2025			\$ 4,479,768			\$ 4,639,903			\$ (160,135)

Estimates of future employer rates depend upon a variety of factors:

- Future investment returns of 7.00%.
- Payroll growth of 2.75%.
- Inflation growth of 2.50%.
- Demographic assumptions including the percentage of employees that will terminate employment, retire, or pass on in each future year.

Several pages of the actuarial report are attached.

### **Plan's Funded Status, Based on Market Value of Assets (Page 5 Actuarial Report)**

As stated earlier, the funded status is 89.8% with the unfunded liability totaling \$10.2 million. The prior year funded status was 91.5%, with the unfunded liability of \$7.8 million. The reasons for the increase in the unfunded accrued liability (UAL) of \$2.4 million was due to an update to the financial system and the reduction in the discount rate from 7.25% to 7.00% as mentioned above.

### **Investment Rate of Return**

It is CalPERS' policy to use a constant investment return rate for the actuarial report rather than the actual rate of return. This is called *asset smoothing*- the delayed recognition of part of the investment gains or losses dampens the effect of short-term market value fluctuations in setting employers' rates. Prior to fiscal year 2019, CalPERS employed a policy that amortizes all gains and losses over a fixed 30-year period, which was smoothed by ramping up/down the increase or decrease over a 5 year period. This method is referred to as "direct rate smoothing." Beginning this fiscal year, the CalPERS Board approved amortizing gains/losses over a 20 a year period based on a level dollar amount. In addition, the new policy removes the 5 year ramping on UAL bases attributable to assumption changes and non-investment gains/losses. Finally, CalPERS does not use the actuarial value of assets, but uses the market value of assets.

The CalPERS history of investment returns is shown on Page 11 of the actuarial report.

### **Other Information**

- There are 197 retirees receiving benefits.
- The average annual benefit is \$17,792.
- The average age of retirees is 70.32.
- There are 251 active members.
- The average annual payroll of the active members is \$59,089.
- The covered annual payroll is \$14,831,366.
- The average age for active members is 51.25.
- Pages C-1 & C-2 include a breakdown of the active members by age and salaries & years of service. As of June 30, 2018, 25% or 63 employees were over 60 years of age.

## Options to Reduce Pension Liability

Staff has been considering options to reduce the pension liability -- from a Section 115 Pension Trust to additional payments to CalPERS. The Section 115 Pension Trust Fund has been adopted or considered by many agencies throughout California including some of our member agencies. As we discussed last year and more recently in July (PARS update item), the Section 115 Pension Trust is currently not an option for County Connection. We are heavily funded by grants allocated by Metropolitan Transportation Commission (MTC). These funds include Transportation Development Act 4.0 (TDA 4.0 revenue is from sales tax) and State Transit Assistance (STA revenue is from sales tax on diesel) and represent about 60% (based on FY2020 budget) of our total revenue. These revenue sources must be used for current operations and/or capital. If we were to open and deposit funds in the Section 115 Pension Trust, under current accounting rules, we could not expense those contributions as we do for pension costs. This transaction would be similar to a transfer from a checking account to a savings account. Since we are so heavily grant funded, MTC could request and we would be required to spend and/or return these funds, since they are not being used for current operations and/or capital expense.

The second option is to directly provide additional funding to CalPERS to reduce the liability. In the past, this option was not available to us because we were over 100% funded through FY 2011. Even as recent as FY 2017, County Connection was 99.9% funded. The CalPERS Board has made changes in the last few years, from updating mortality rates, changes on how it amortizes gain/losses, and most importantly lowered the discount rate from 7.5% to 7.0%. Staff informed the A&F Committee of these changes as they occurred and subsequently these changes have reduced our funding level to 89.8% or an unfunded liability of \$10.2 million as mentioned earlier. Therefore, paying CalPERS directly is an option available to County Connection, since we are currently not fully funded.

CalPERS provides options to reduce the liability from amortizing the debt on a shorter basis (i.e. 15 years or 10 years), which it calls a "Fresh Start" (see CalPERS Actuarial Report PP18) to paying one time additional payments. The Fresh Start is similar to refinancing a home mortgage from 30 years to 15 years, but unlike a home mortgage, once you decide to begin a Fresh Start it cannot be undone. If an agency believed they could make the scheduled payments today, but due to financial or economic changes (i.e. CalPERS lowering discount rate) were no longer able to make the Fresh Start payments, CalPERS cannot reverse nor refinance the Fresh Start. Also, County Connection doesn't have additional funding that it could provide to pay for the Fresh Start amounts other than drawing down on reserves or reducing service. Thus, the Fresh Start option is not viable for County Connection. Therefore, the only option would be to make additional payments similar to paying additional principal on a monthly home mortgage payment.

The respective gains/losses (table below or see PP16 of PERS Actuarial Report if table is difficult to read) represent our asset/liability each fiscal year at that point in time and total \$10.2 million as of 6/30/18. Each fiscal year has its own bases and will include an addition of future gains or losses and assumption changes.

CalPERS Actuarial Valuation - June 30, 2018  
Miscellaneous Plan of the Central Contra Costa Transit Authority  
CalPERS ID: 2146548042

### Schedule of Amortization Bases

Reason for Base	Date Established	Ramp Up/Down 2020-21	Escalation Rate	Amortization Period	Balance 6/30/18	Expected Payment 2018-19	Balance 6/30/19	Expected Payment 2019-20	Balance 6/30/20	Scheduled Payment for 2020-21
FS SURPLUS TO 30 YEARS	06/30/14	No Ramp	2.750%	26	\$(104,746)	\$(6,436)	\$(105,421)	\$(6,612)	\$(105,961)	\$(6,684)
(GAIN)/LOSS	06/30/15	80% ^	2.750%	27	\$4,009,331	\$108,187	\$4,178,075	\$166,740	\$4,298,063	\$224,806
ASSUMPTION CHANGE	06/30/16	60% ^	2.750%	18	\$1,637,074	\$30,892	\$1,719,714	\$63,476	\$1,774,434	\$96,609
(GAIN)/LOSS	06/30/16	60% ^	2.750%	28	\$5,623,125	\$78,030	\$5,936,029	\$160,361	\$6,185,672	\$243,089
ASSUMPTION CHANGE	06/30/17	40% ^	2.750%	19	\$1,084,552	\$(41,412)	\$1,203,308	\$22,729	\$1,264,028	\$46,093
(GAIN)/LOSS	06/30/17	40% ^	2.750%	29	\$(3,820,283)	\$0	\$(4,087,703)	\$(56,791)	\$(4,315,097)	\$(114,702)
METHOD CHANGE	06/30/18	20% ^	2.750%	20	\$488,090	\$6,248	\$515,793	\$6,420	\$545,258	\$10,166
ASSUMPTION CHANGE	06/30/18	20% ^	2.750%	20	\$2,626,857	\$(95,855)	\$2,909,890	\$(98,491)	\$3,215,462	\$59,951
(GAIN)/LOSS	06/30/18	20% ^	2.750%	30	\$(1,372,583)	\$0	\$(1,468,664)	\$0	\$(1,571,470)	\$(21,463)
<b>TOTAL</b>					<b>\$10,171,418</b>	<b>\$79,654</b>	<b>\$10,801,021</b>	<b>\$257,832</b>	<b>\$11,290,389</b>	<b>\$537,865</b>

If additional contributions were provided, we would be required to notify CalPERS of the additional payment and direct which bases to reduce. For example, an additional payment of \$50 thousand a year over 10 years against the loss in 6/30/2016 would provide savings of \$542 thousand in interest payments based on CalPERS amortization tables. Obviously, if we were able to make larger payments against the debt, there could be increased savings in interest payments. A concern could be that any additional payments would increase the expense for that fiscal year and decrease fare box ratio, but we would eventually be paying those costs in the future plus the interest.

Also, staff has discussed with CalPERS staff how the bases amount could be changed by the CalPERS Board as reflected below:

1. If CalPERS discount rates were decreased, this would cause an assumption change and increase the liability for the year of implementation. The bases liability would not change but slightly decrease the payments since the rate for previous bases would be lower. For example, if the CalPERS Board approved lowering the discount rate to 6.75% in FY 2020, this change would cause a FY 2020 Assumption Change liability in the FY 2020 bases. But it would also slightly reduce the previous payments on previous year's unfunded liability bases since the interest rate is now lower.
2. If CalPERS were to decrease the escalation rate (aka salary growth rate) of 2.75% to a lower rate, this would cause a slight gain in year of implementation, but would slightly increase the payments on previous year's unfunded liability bases. CalPERS staff noted that if the escalation rate were lowered, it is likely that the discount rate would be lowered.

There are concerns about paying CalPERS additional funds, but it is a matter of paying now or paying much more later. It's a reasonable goal to make smaller one time payments (as noted in the example earlier) and achieve interest savings over time. The following is a framework of how those additional payments could be made:

1. If the estimate for pension related costs are less than budget by the May budget presentation, and would not require a draw on the contingency, nor additional TDA allocations; allow the General Manager to authorize additional payments to CalPERS up to \$100,000.
2. Additional payment amounts over \$100,000 could be recommended by staff and approved by the A&F and Board as part of the May budget review.
3. Any additional payments made by County Connection to CalPERS would be adjusted for in the Wage Increase determination done by the auditors each year. In the auditors' Agreed Upon Procedure report, that additional payment amount will be reduced from total pension expense for that fiscal year. This amount shall not be included as part of the increase of additional pension costs of \$1,000,000 for that fiscal year, which might cause a reduction of wage increases.

**FINANCIAL IMPLICATIONS:** These rates will be used for the revised forecast.

**ACTION REQUESTED:** A&F Committee recommend approval of the Resolution and Pension Funding Policy to the Board.

**ATTACHMENTS:**

- A. Selected pages of the PERS valuation report.
- B. Resolution for Pension Funding
- C. Pension Funding Policy



**Actuarial Valuation  
as of June 30, 2018**

**for the  
Miscellaneous Plan  
of the  
Central Contra Costa Transit Authority**

**(CalPERS ID: 2146548042)  
(Valuation Rate Plan ID: 1380)**

**Required Contributions  
for Fiscal Year  
July 1, 2020 – June 30, 2021**

## Required Contributions

		Fiscal Year
Required Employer Contribution		2020-21
Employer Normal Cost Rate		8.785%
<i>Plus, Either</i>		
1) Monthly Employer Dollar UAL Payment	\$	44,822
<i>Or</i>		
2) Annual UAL Prepayment Option*	\$	519,974
Required PEPRA Member Contribution Rate		7.25%
<p>The total minimum required employer contribution is the <b>sum</b> of the Plan's Employer Normal Cost Rate (expressed as a percentage of payroll) <b>plus</b> the Employer Unfunded Accrued Liability (UAL) Contribution Amount (billed monthly in dollars).</p> <p>* Only the UAL portion of the employer contribution can be prepaid (<b>which must be received in full no later than July 31</b>). Any prepayment totaling over \$5 million requires a 72-hour notice email to <a href="mailto:FCSD_public_agency_wires@calpers.ca.gov">FCSD_public_agency_wires@calpers.ca.gov</a>. Plan Normal Cost contributions will be made as part of the payroll reporting process. If there is contractual cost sharing or other change, this amount will change.</p> <p>In accordance with Sections 20537 and 20572 of the Public Employees' Retirement Law, if a contracting agency fails to remit the required contributions when due, interest and penalties may apply.</p> <p>For additional detail regarding the determination of the required contribution for PEPRA members, see Appendix D. Required member contributions for Classic members can be found in Appendix B.</p>		

	Fiscal Year		Fiscal Year	
	2019-20		2020-21	
Normal Cost Contribution as a Percentage of Payroll				
Total Normal Cost		15.256%		15.859%
Employee Contribution <sup>1</sup>		6.943%		7.074%
Employer Normal Cost <sup>2</sup>		8.313%		8.785%
Projected Annual Payroll for Contribution Year	\$	15,548,429	\$	16,088,911
Estimated Employer Contributions Based On Projected Payroll				
Total Normal Cost	\$	2,372,068	\$	2,551,541
Employee Contribution <sup>1</sup>		1,079,527		1,138,130
Employer Normal Cost <sup>2</sup>		1,292,541		1,413,411
Unfunded Liability Contribution		349,903		537,865
% of Projected Payroll (illustrative only)		2.250%		3.343%
Estimated Total Employer Contribution	\$	1,642,444	\$	1,951,276
% of Projected Payroll (illustrative only)		10.563%		12.128%

<sup>1</sup> For classic members, this is the percentage specified in the Public Employees' Retirement Law, net of any reduction from the use of a modified formula or other factors. For PEPRA members, the member contribution rate is based on 50 percent of the normal cost. A development of PEPRA member contribution rates can be found in Appendix D. Employee cost sharing is not shown in this report.

<sup>2</sup> The Employer Normal Cost is a blended rate for all benefit groups in the plan. A breakout of normal cost by benefit group is shown in Appendix D.

## Plan's Funded Status

	June 30, 2017	June 30, 2018
1. Present Value of Projected Benefits	\$ 106,730,707	\$ 115,493,189
2. Entry Age Normal Accrued Liability	91,813,858	99,433,809
3. Market Value of Assets (MVA)	\$ 84,006,011	\$ 89,262,391
4. Unfunded Accrued Liability (UAL) [(2) – (3)]	\$ 7,807,847	\$ 10,171,418
5. Funded Ratio [(3) / (2)]	91.5%	89.8%

This measure of funded status is an assessment of the need for future employer contributions based on the selected actuarial cost method used to fund the plan. The UAL is the present value of future employer contributions for service that has already been earned and is in addition to future normal cost contributions for active members. For a measure of funded status that is appropriate for assessing the sufficiency of plan assets to cover estimated termination liabilities, please see "Hypothetical Termination Liability" in the "Risk Analysis" section.

## Projected Employer Contributions

The table below shows the required and projected employer contributions (before cost sharing) for the next six fiscal years. Projected results reflect the adopted changes to the discount rate described in Appendix A, "Actuarial Methods and Assumptions." The projections also assume that all actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur during the projection period. The projected normal cost percentages in the projections below do not reflect that the normal cost will decline over time as new employees are hired into PEPRA or other lower cost benefit tiers.

	Required Contribution	Projected Future Employer Contributions (Assumes 7.00% Return for Fiscal Year 2018-19)				
Fiscal Year	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Normal Cost %	8.785%	8.8%	8.8%	8.8%	8.8%	8.8%
UAL Payment	537,865	741,000	897,000	937,000	1,017,000	1,045,000
<i>Total as a % of Payroll*</i>	<i>12.1%</i>	<i>13.3%</i>	<i>14.1%</i>	<i>14.2%</i>	<i>14.5%</i>	<i>14.5%</i>
<i>Projected Payroll</i>	<i>16,088,911</i>	<i>16,531,356</i>	<i>16,985,969</i>	<i>17,453,082</i>	<i>17,933,042</i>	<i>18,426,201</i>

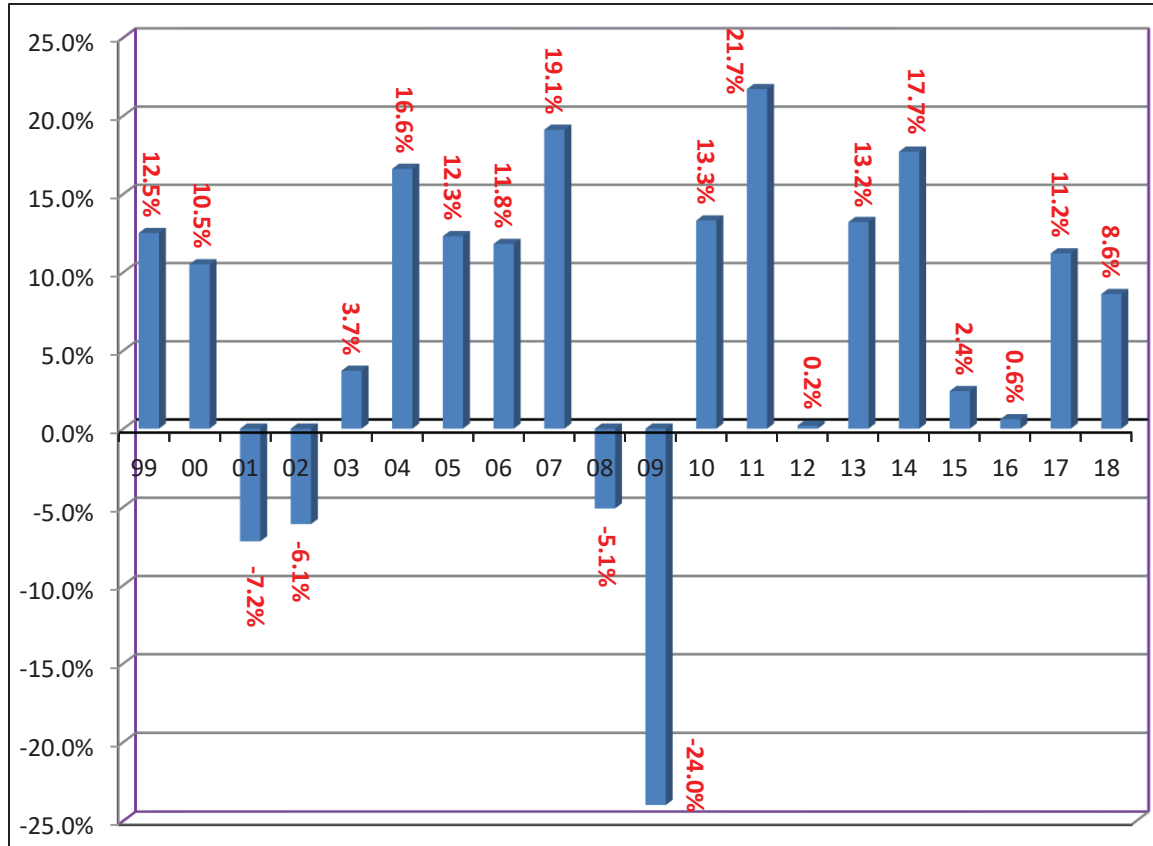
\*Illustrative only and based on the projected payroll shown.

Changes in the UAL due to actuarial gains or losses as well as changes in actuarial assumptions or methods are amortized using a 5-year ramp up. For more information, please see "Amortization of the Unfunded Actuarial Accrued Liability" under "Actuarial Methods" in Appendix A. This method phases in the impact of changes in UAL over a 5-year period and attempts to minimize employer cost volatility from year to year. As a result of this methodology, dramatic changes in the required employer contributions in any one year are less likely. However, required contributions can change gradually and significantly over the next five years. In years where there is a large increase in UAL the relatively small amortization payments during the ramp up period could result in a funded ratio that is projected to decrease initially while the contribution impact of the increase in the UAL is phased in.

For projected contributions under alternate investment return scenarios, please see the "Future Investment Return Scenarios" in the "Risk Analysis" section.

## CalPERS History of Investment Returns

The following is a chart with the 20-year historical annual returns of the Public Employees Retirement Fund for each fiscal year ending on June 30. Beginning in 2002, the figures are reported as gross of fees.



The table below shows historical geometric mean annual returns of the Public Employees Retirement Fund for various time periods ending on June 30, 2018 (figures are reported as gross of fees). The geometric mean rate of return is the average rate per period compounded over multiple periods. It should be recognized that in any given year the rate of return is volatile. The portfolio has an expected volatility of 11.4 percent per year based on the most recent Asset Liability Modelling study. The volatility is a measure of the risk of the portfolio expressed in the standard deviation of the fund's total return distribution, expressed as a percentage. Consequently, when looking at investment returns, it is more instructive to look at returns over longer time horizons.

History of CalPERS Geometric Mean Rates of Return and Volatilities					
	1 year	5 year	10 year	20 year	30 year
Geometric Return	8.6%	7.9%	5.7%	6.0%	8.3%
Volatility	—	6.9%	12.9%	11.1%	10.1%



## Schedule of Amortization Bases

Reason for Base	Date Established	Ramp Up/Down 2020-21	Escalation Rate	Amortization Period	Balance 6/30/18	Expected Payment 2018-19	Balance 6/30/19	Expected Payment 2019-20	Balance 6/30/20	Scheduled Payment for 2020-21
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(GAIN)/LOSS	06/30/17	40% ↗	2.750%	29	\$(3,820,283)	\$0	\$(4,087,703)	\$(56,791)	\$(4,315,097)	\$(114,702)
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(GAIN)/LOSS	06/30/18	20% ↗	2.750%	30	\$(1,372,583)	\$0	\$(1,468,664)	\$0	\$(1,571,470)	\$(21,463)
<b>TOTAL</b>					<b>\$10,171,418</b>	<b>\$79,654</b>	<b>\$10,801,021</b>	<b>\$257,832</b>	<b>\$11,290,389</b>	<b>\$537,865</b>

## Amortization Schedule and Alternatives

The amortization schedule on the previous page shows the minimum contributions required according to CalPERS amortization policy. There has been considerable interest from many agencies in paying off these unfunded accrued liabilities sooner and the possible savings in doing so. As a result, we have provided alternate amortization schedules to help analyze the current amortization schedule and illustrate the advantages of accelerating unfunded liability payments.

Shown on the following page are future year amortization payments based on 1) the current amortization schedule reflecting the individual bases and remaining periods shown on the previous page, and 2) alternate "fresh start" amortization schedules using two sample periods that would both result in interest savings relative to the current amortization schedule. Note that the payments under each alternate scenario increase by 2.75 percent per year.

The Current Amortization Schedule typically contains individual bases that are both positive and negative. Positive bases result from plan changes, assumption changes or plan experience that result in increases to unfunded liability. Negative bases result from plan changes, assumption changes or plan experience that result in decreases to unfunded liability. The combination of positive and negative bases within an amortization schedule can result in unusual or problematic circumstances in future years such as:

- A positive total unfunded liability with a negative total payment,
- A negative total unfunded liability with a positive total payment, or
- Total payments that completely amortize the unfunded liability over a very short period of time

In any year where one of the above scenarios occurs, the actuary will consider corrective action such as replacing the existing unfunded liability bases with a single "fresh start" base and amortizing it over a reasonable period.

The Current Amortization Schedule on the following page may appear to show that, based on the current amortization bases, one of the above scenarios will occur at some point in the future. It is impossible to know today whether such a scenario will in fact arise since there will be additional bases added to the amortization schedule in each future year. Should such a scenario arise in any future year, the actuary will take appropriate action based on guidelines in the CalPERS amortization policy.

## Amortization Schedule and Alternatives

Date	<u>Current Amortization Schedule</u>		<u>Alternate Schedules</u>			
	Balance	Payment	20 Year Amortization		15 Year Amortization	
			Balance	Payment	Balance	Payment
6/30/2020	11,290,389	537,865	11,290,389	835,206	11,290,389	1,018,322
6/30/2021	11,524,344	741,495	11,216,773	858,174	11,027,356	1,046,326
6/30/2022	11,564,040	896,581	11,114,245	881,773	10,716,942	1,075,100
6/30/2023	11,446,092	936,803	10,980,129	906,022	10,355,036	1,104,665
6/30/2024	11,278,280	1,016,795	10,811,541	930,938	9,937,214	1,135,043
6/30/2025	11,015,981	1,044,761	10,605,380	956,539	9,458,721	1,166,257
6/30/2026	10,706,390	1,073,490	10,358,305	982,843	8,914,446	1,198,329
6/30/2027	10,345,412	1,103,012	10,066,725	1,009,872	8,298,896	1,231,283
6/30/2028	9,928,626	1,133,344	9,726,777	1,037,643	7,606,169	1,265,144
6/30/2029	9,451,289	1,164,511	9,334,305	1,066,178	6,829,926	1,299,935
6/30/2030	8,908,300	1,196,534	8,884,843	1,095,498	5,963,358	1,335,683
6/30/2031	8,294,179	1,229,439	8,373,590	1,125,624	4,999,151	1,372,415
6/30/2032	7,603,029	1,263,249	7,795,386	1,156,579	3,929,455	1,410,156
6/30/2033	6,828,527	1,297,989	7,144,688	1,188,385	2,745,840	1,448,935
6/30/2034	5,963,874	1,286,603	6,415,542	1,221,066	1,439,259	1,488,781
6/30/2035	5,050,473	1,238,989	5,601,550	1,254,645		
6/30/2036	4,122,386	1,079,554	4,695,843	1,289,148		
6/30/2037	3,294,252	910,416	3,691,048	1,324,599		
6/30/2038	2,583,107	731,160	2,579,245	1,361,026		
6/30/2039	2,007,606	595,274	1,351,936	1,398,454		
6/30/2040	1,532,383	491,013				
6/30/2041	1,131,742	504,516				
6/30/2042	689,088	518,390				
6/30/2043	201,097	208,016				
6/30/2044						
6/30/2045						
6/30/2046						
6/30/2047						
6/30/2048						
6/30/2049						
<b>Total</b>		<b>22,199,799</b>		<b>21,880,212</b>		<b>18,596,374</b>
<b>Interest Paid</b>		<b>10,909,410</b>		<b>10,589,823</b>		<b>7,305,985</b>
<b>Estimated Savings</b>				<b>319,587</b>		<b>3,603,425</b>

<b>Contribution Volatility</b>		<b>June 30, 2017</b>		<b>June 30, 2018</b>
1. Market Value of Assets without Receivables	\$	83,822,678	\$	89,084,606
2. Payroll		14,280,946		14,831,366
3. Asset Volatility Ratio (AVR) [(1) / (2)]		5.9		6.0
4. Accrued Liability	\$	91,813,858	\$	99,433,809
5. Liability Volatility Ratio (LVR) [(4) / (2)]		6.4		6.7

## Hypothetical Termination Liability

The hypothetical termination liability is an estimate of the financial position of the plan had the contract with CalPERS been terminated as of June 30, 2018. The plan liability on a termination basis is calculated differently from the plan's ongoing funding liability. For this hypothetical termination liability calculation, both compensation and service are frozen as of the valuation date and no future pay increases or service accruals are assumed. This measure of funded status is not appropriate for assessing the need for future employer contributions in the case of an ongoing plan, that is, for an employer that continues to provide CalPERS retirement benefits to active employees.

A more conservative investment policy and asset allocation strategy was adopted by the CalPERS Board for the Terminated Agency Pool. The Terminated Agency Pool has limited funding sources since no future employer contributions will be made. Therefore, expected benefit payments are secured by risk-free assets and benefit security for members is increased while limiting the funding risk. However, this asset allocation has a lower expected rate of return than the PERF and consequently, a lower discount rate assumption. The lower discount rate for the Terminated Agency Pool results in higher liabilities for terminated plans.

The effective termination discount rate will depend on actual market rates of return for risk-free securities on the date of termination. As market discount rates are variable the table below shows a range for the hypothetical termination liability based on the lowest and highest interest rates observed during an approximate 2-year period centered around the valuation date.

<b>Market Value of Assets (MVA)</b>	<b>Hypothetical Termination Liability<sup>1,2</sup> @ 2.50%</b>	<b>Funded Status</b>	<b>Unfunded Termination Liability @ 2.50%</b>	<b>Hypothetical Termination Liability<sup>1,2</sup> @ 3.25%</b>	<b>Funded Status</b>	<b>Unfunded Termination Liability @ 3.25%</b>
\$89,262,391	\$162,891,689	54.8%	\$73,629,298	\$149,837,587	59.6%	\$60,575,196

<sup>1</sup> The hypothetical liabilities calculated above include a 5 percent contingency load in accordance with Board policy. Other actuarial assumptions can be found in Appendix A.

<sup>2</sup> The current discount rate assumption used for termination valuations is a weighted average of the 10-year and 30-year U.S. Treasury yields where the weights are based on matching asset and liability durations as of the termination date. The discount rates used in the table are based on 20-year Treasury bonds, rounded to the nearest quarter percentage point, which is a good proxy for most plans. The 20-year Treasury yield was 2.91 percent on June 30, 2018, and was 2.83 percent on January 31, 2019.

In order to terminate the plan, you must first contact our Retirement Services Contract Unit to initiate a Resolution of Intent to Terminate. The completed Resolution will allow the plan actuary to give you a preliminary termination valuation with a more up-to-date estimate of the plan liabilities. CalPERS advises you to consult with the plan actuary before beginning this process.

## Summary of Valuation Data

	June 30, 2017	June 30, 2018
<b>1. Active Members</b>		
a) Counts	246	251
b) Average Attained Age	51.08	51.25
c) Average Entry Age to Rate Plan	37.93	38.29
d) Average Years of Credited Service	13.15	12.65
e) Average Annual Covered Pay	\$ 58,053	\$ 59,089
f) Annual Covered Payroll	14,280,946	14,831,366
g) Projected Annual Payroll for Contribution Year	15,548,429	16,088,911
h) Present Value of Future Payroll	102,031,128	105,609,728
<b>2. Transferred Members</b>		
a) Counts	50	52
b) Average Attained Age	47.07	48.58
c) Average Years of Credited Service	1.52	1.48
d) Average Annual Covered Pay	\$ 62,611	\$ 66,272
<b>3. Terminated Members</b>		
a) Counts	134	128
b) Average Attained Age	52.04	51.61
c) Average Years of Credited Service	3.07	3.28
d) Average Annual Covered Pay	\$ 39,052	\$ 39,798
<b>4. Retired Members and Beneficiaries</b>		
a) Counts	199	197
b) Average Attained Age	70.08	70.32
c) Average Annual Benefits	\$ 16,763	\$ 17,792
<b>5. Active to Retired Ratio [(1a) / (4a)]</b>	1.24	1.27

Counts of members included in the valuation are counts of the records processed by the valuation. Multiple records may exist for those who have service in more than one valuation group. This does not result in double counting of liabilities.

Average Annual Benefits represents benefit amounts payable by this plan only. Some members may have service with another agency and would therefore have a larger total benefit than would be included as part of the average shown here.

## Active Members

Counts of members included in the valuation are counts of the records processed by the valuation. Multiple records may exist for those who have service in more than one valuation group. This does not result in double counting of liabilities.

### Distribution of Active Members by Age and Service

Attained Age	Years of Service at Valuation Date						Total
	0-4	5-9	10-14	15-19	20-24	25+	
15-24	3	0	0	0	0	0	3
25-29	9	1	0	0	0	0	10
30-34	9	2	3	0	0	0	14
35-39	8	4	2	0	0	0	14
40-44	14	6	7	7	2	0	36
45-49	11	6	5	7	1	0	30
50-54	12	3	2	8	9	2	36
55-59	10	4	6	7	3	15	45
60-64	8	4	2	11	3	10	38
65 and over	1	2	1	7	3	11	25
<b>All Ages</b>	<b>85</b>	<b>32</b>	<b>28</b>	<b>47</b>	<b>21</b>	<b>38</b>	<b>251</b>

### Distribution of Average Annual Salaries by Age and Service

Attained Age	Years of Service at Valuation Date						Average
	0-4	5-9	10-14	15-19	20-24	25+	
15-24	\$38,415	\$0	\$0	\$0	\$0	\$0	\$38,415
25-29	47,775	93,149	0	0	0	0	52,312
30-34	56,712	54,475	64,151	0	0	0	57,986
35-39	56,628	58,478	61,987	0	0	0	57,922
40-44	57,547	62,892	53,173	58,803	73,299	0	58,707
45-49	60,149	53,806	49,157	79,219	52,841	0	61,254
50-54	53,964	55,780	51,207	54,339	73,444	54,475	58,944
55-59	45,863	52,450	56,745	54,435	54,430	77,730	60,426
60-64	49,736	53,386	60,628	55,284	59,483	85,248	62,414
65 and over	61,019	44,647	65,832	53,641	61,902	57,181	56,253
<b>All Ages</b>	<b>\$53,424</b>	<b>\$56,755</b>	<b>\$55,871</b>	<b>\$58,841</b>	<b>\$66,089</b>	<b>\$72,536</b>	<b>\$59,089</b>

**RESOLUTION NO. 2020-\_\_**

**BOARD OF DIRECTORS CENTRAL CONTRA COSTA TRANSIT AUTHORITY  
STATE OF CALIFORNIA**

\* \* \*

**ADOPTING THE CCCTA PENSION FUNDING POLICY**

**WHEREAS**, the County of Contra Costa and the Cities of Clayton, Concord, the Town of Danville, Lafayette, Martinez, the Town of Moraga, Orinda, Pleasant Hill, San Ramon and Walnut Creek (hereinafter "Member Jurisdictions") have formed the Central Contra Costa Transit Authority ("County Connection"), a joint exercise of powers agency created under California Government Code Section 6500 *et seq.*, for the joint exercise of certain powers to provide coordinated and integrated public transportation services within the area of its Member Jurisdictions;

**WHEREAS**, County Connection is contracted with CalPERS to provide a defined benefit pension plan;

**WHEREAS**, CalPERS issues an actuarial report ("Report") each year to inform County Connection of the funded status of the defined benefit pension plan, and if County Connection is underfunded, CalPERS provides an unfunded liability amount, which must be paid separately from the rates required to be paid by County Connection the following fiscal year;

**WHEREAS**, County Connection has paid the required contributions reflected in the Report, however, staff also wants to set up a process to make additional payments to provide interest savings under certain circumstances if County Connection is not fully funded;

**WHEREAS**, the Chief Financial Officer ("CFO") prepared a CalPERS pension funding policy ("Pension Funding Policy"), under which County Connection may directly make additional annual payments, to CalPERS to reduce County Connection's unfunded liability; and

**WHEREAS**, the Administration & Finance Committee and the CFO recommend that the Board of Directors adopt the attached Pension Funding Policy.

**NOW, THEREFORE, BE IT RESOLVED** that the Board of Directors of the Central Contra Costa Transit Authority hereby adopts the Pension Funding Policy, attached hereto, and authorizes the General Manager to take such actions as are reasonable and appropriate to implement the procedures necessary to enforce the policy.

Regularly passed and adopted this \_\_\_\_ day of January 2020, by the following vote.

AYES:

NOES:

ABSTENTIONS:

ABSENT:

ATTEST:

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Candace Andersen, Chair, Board of Directors

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Lathina Hill, Clerk to the Board

# **Central Contra Costa Transit Authority**

## **PENSION FUNDING POLICY**

### **1. Purpose**

The purpose of this Central Contra Costa Transit Authority (County Connection) Pension Funding Policy (Policy) is to establish a procedure to fund County Connection's pension and make additional payments based on certain criteria assuming there is an unfunded liability.

### **2. CalPERS**

County Connection is contracted with CalPERS to provide a defined benefit pension plan. CalPERS acts as the common investment and administrative agent for members participating in the plan. Benefit provisions under the defined benefit pension plan are established by State statute and County Connection Resolution.

### **3. Funding**

CalPERS issues an actuarial report (Report) each year (normally in July) to inform County Connection of the funded status of the defined benefit pension plan. The Report informs us of the rates that are required to be paid by the Employer and Employee for the following fiscal year. Also, if County Connection is underfunded based on the Report, CalPERS provides an unfunded liability amount that is owed to CalPERS, which must be paid separately from the rates. County Connection has paid the required contributions reflected in the Report. However, we also want to set up a process to make additional payments to provide interest savings under certain circumstances if we are not fully funded.

### **4. Procedure for additional unfunded liability payments**

The CFO shall recommend annually to the General Manager additional payments to CalPERS if County Connection is not fully funded and the payments provide savings to County Connection.

The amount of the additional payment will be based on:

- a. If the estimate for pension related costs are less than budget by the May budget presentation, and would not require a draw on the contingency, nor additional TDA allocations; allow the General Manager to authorize additional payments to CalPERS up to \$100,000.
- b. Additional payment amounts over \$100,000 could be recommended by staff and approved by the A&F Committee and Board as part of the May budget review.

Any additional payments made by County Connection to CalPERS would be adjusted for in the Wage Increase determination done by the auditors each year (if condition is applicable). The Wage Increase provision is included in Memorandum of Understanding with our bargaining groups and states that wage increases can be reduced to zero if certain conditions occur. One of those conditions is if the dollar amount County Connection paid to CalPERS for non-healthcare retirement benefits in the most recent closed fiscal year increases by \$1,000,000 when compared to the dollar amount County Connection paid to



CalPERS in the previously closed fiscal year for non-healthcare retirement benefits. County Connection has the auditors prepare an Agreed Upon Procedure report each year to reflect this condition. Therefore, if an additional payment amount were paid, this amount would be reduced from total pension expense for that fiscal year. This amount shall not be included as part of the increase of additional pension costs of \$1,000,000 for that fiscal year.